

# Weekly Watch

U.S.

## Highlights

12 September 2011  
Economic Analysis

U.S.

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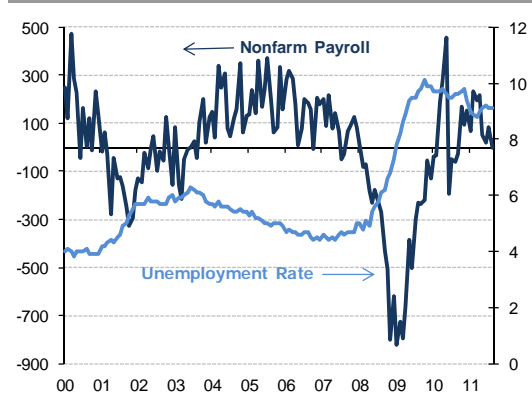
### Obama announces American Jobs Act, urges Congress to pass immediately

Last night Obama announced the American Jobs Act, a proposal to put people back to work while simultaneously addressing structural issues across the country. If passed, the act will provide tax breaks for corporations that hire new employees or raise wages, and it will cut payroll taxes in half for working Americans and small businesses. Businesses will also get extra tax credit if they hire veterans or anyone who has spent more than 6 months looking for a job. Furthermore, the plan extends unemployment insurance for another year, while providing a \$1,500 tax credit to working families in 2012. In addition, the act intends to put construction workers back on the job fixing the country's deteriorating infrastructure, including at least 35,000 schools that need repair and modernization. Most importantly, Obama stressed that this act, totaling more than \$400 billion, will not counteract the deficit reduction plan agreed upon following the debt ceiling negotiations. A week from Monday, Obama plans to release another deficit reduction bill to reduce short-term debt and stabilize the budget in the long run. The act comes at a critical time, not only due to the threat of a double-dip recession but also as Obama prepares himself for re-election in 2012. Although he acknowledged the fact that the "political circus" must end, it is clear that Obama needs to fight to save his faltering reputation. Obama is desperately trying to avoid another recession under his name, appealing to middle-class voters who are focused on creating jobs and rebuilding infrastructure. After last month's fiscal negotiations, we expect Republicans to oppose significant increases in government spending. Tax cuts, however, likely have the best chance of passing.

### Trade balance better than expected for July as exports rebound

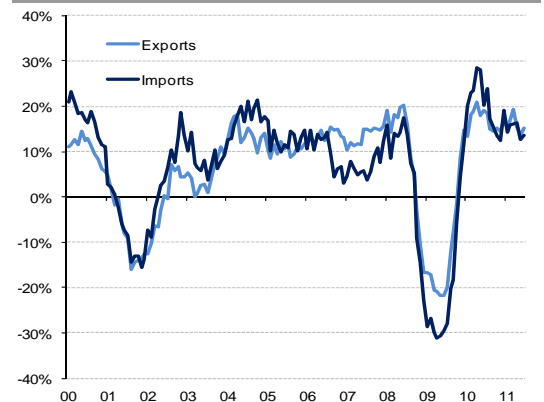
The trade gap narrowed to -\$44.8bn in July from a revised -\$51.6bn in June. Despite concerns that global slowdowns would impact external demand, exports of goods and services jumped 3.6% MoM after falling 2.2% in the previous month. Service exports grew for the fifth consecutive month, up 1.0% due to a jump in passenger fares. A 0.2% MoM decline in imports also contributed to the smaller trade gap. Much of the improvement was due to narrowing in the petroleum and nonpetroleum gaps, which fell 12.9% and 6.8%, respectively. Overall, July's trade balance could be good news for 3Q11 GDP growth amidst series of otherwise weak economic data.

Graph 1  
Nonfarm Payroll & Unemployment Rate (Change in K, %)



Source: US Bureau of Labor Statistics

Graph 2  
U.S. Exports and Imports (Annual % Change)



Source: US Census Bureau

## Week Ahead

### Retail Sales, Ex. Auto (August, Wednesday 8:30 ET)

Forecast: 0.2%, 0.3%      Consensus: 0.2%, 0.2%      Previous: 0.5%, 0.5%

The back-to-school shopping season likely had a positive impact on retail sales for August, and Hurricane Irene most likely contributed to a boost in sales of home supplies toward the end of the month. However, domestic and imported auto sales were down slightly in August, and lower crude oil prices may have led to a nominal decline in gasoline sales. As consumer confidence remains weak, we expect retail sales to continue growing but at a slower MoM pace.

### Consumer Price Index, Core (August, Wednesday 8:30 ET)

Forecast: 0.2%, 0.2%      Consensus: 0.2%, 0.2%      Previous: 0.5%, 0.2%

Consumer price inflation is expected to slow in August after rising gasoline and food prices led to a significant jump in July's headline inflation. Despite continuing increases in food prices, energy price declines in August should help bring headline inflation back to trend. In addition, core inflation appears to be moderating, with vehicle prices slowing as temporary factors dissipate. In general, continued weakness in economic activity is likely to curb significant consumer price pressures in the coming months.

### Empire State Manufacturing Index (September, Thursday 8:30 ET)

Forecast: -2.00      Consensus: -3.50      Previous: -7.72

The Empire State Manufacturing Index has been negative for the past three months, indicating deterioration in the manufacturing sector, and we expect the index to show little improvement in September. Business activity and consumer confidence remain weak, and sluggish demand conditions have yet to improve. The latest employment report furthered concerns of a soft labor market, with no change in payrolls and a decline in the average workweek. Thus, we expect the pessimistic outlook for business conditions to be reflected in this month's index.

### Industrial Production (August, Thursday 9:15 ET)

Forecast: 0.1%      Consensus: 0.1%      Previous: 0.9%

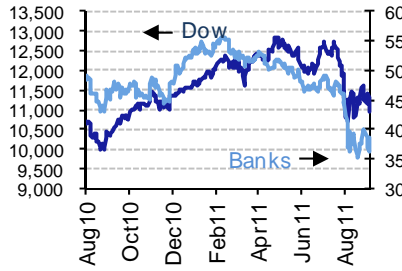
Industrial production is expected to expand only slightly in August compared to a large jump in July that exceeded the monthly average for 2011. Manufacturing data for the month showed continued weakness in the sector, with declines in the ISM manufacturing index as well as the regional Fed manufacturing surveys. Normalization of auto supply chains may push production towards positive MoM growth, however we expect weak economic activity to limit output for the month.

### Market Impact

This week markets will focus on indicators that could have significant implications for monetary policy in the coming months. Deflation concerns are minimal, however larger-than-expected price increases could warrant discussion at the Fed's extended meeting next month. Sustained growth in retail sales and industrial production may help ease market anxiety and offset concerns regarding weak consumer activity.

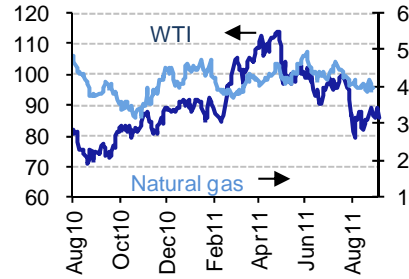
## Financial Markets

Graph 3  
Stocks (Index, KBW)



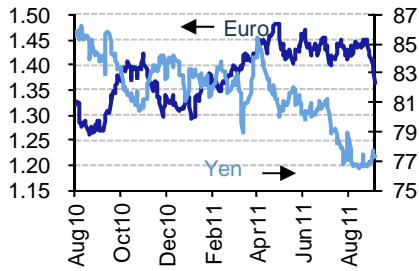
Source: Bloomberg & BBVA Research

Graph 4  
Commodities (Dpb & DpMMBtu)



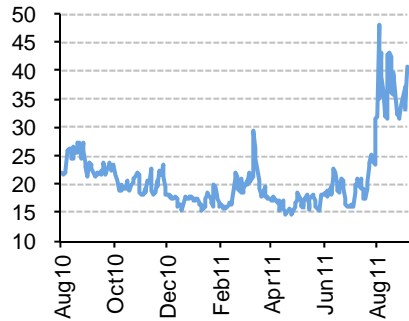
Source: Bloomberg & BBVA Research

Graph 5  
Currencies (Dpe & Ypd)



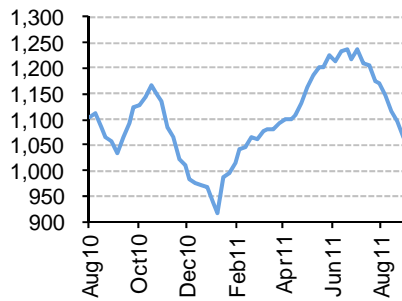
Source: Bloomberg & BBVA Research

Graph 6  
Volatility (Vix, Index)



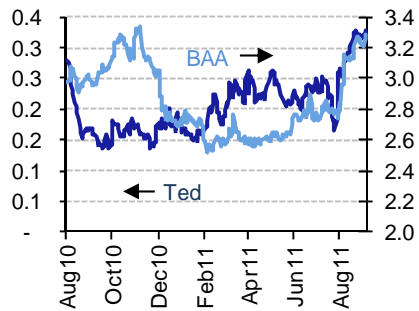
Source: Bloomberg & BBVA Research

Graph 7  
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

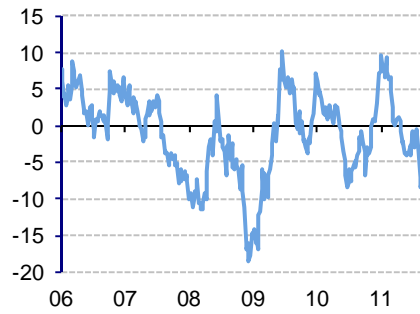
Graph 8  
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

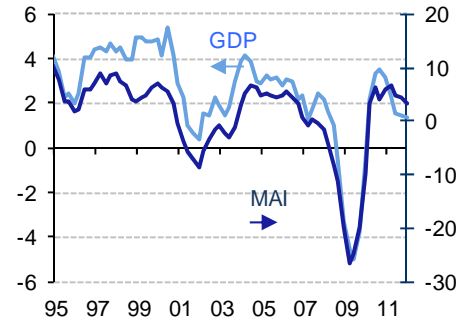
## Economic Trends

Graph 9  
BBVA US Weekly Activity Index  
(3 month % change)



Source: BBVA Research

Graph 10  
BBVA US Monthly Activity Index & Real Gross Domestic Product  
(4Q % change)



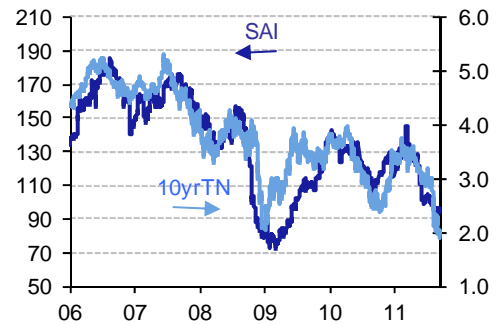
Source: BBVA Research & BEA

Graph 11  
BBVA US Surprise Inflation Index  
(Index 2009=100)



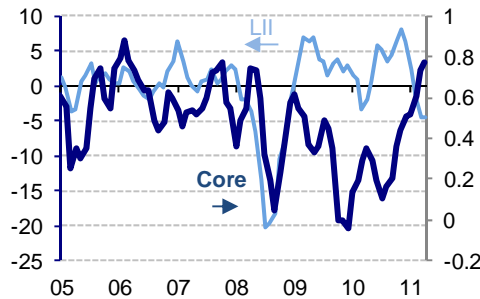
Source: BBVA Research

Graph 12  
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)



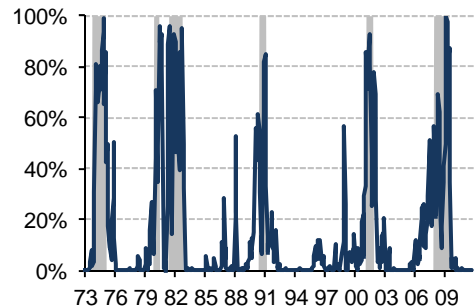
Source: Bloomberg & BBVA Research

Graph 13  
BBVA US Leading Inflation Index & Core Inflation (QoQ % change)



Source: BLS & BBVA Research

Graph 14  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)



Source: BBVA Research

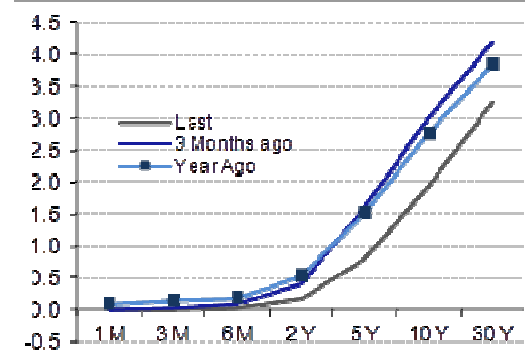
## Yield Curve and Interest Rates

Table 1  
Key Interest Rates, %

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	13.78	13.78	13.73	13.58
New Auto (36-months)	4.22	4.32	4.31	5.95
Heloc Loan 30K	5.49	5.48	5.55	5.52
30-year Fixed Mortgage *	4.12	4.22	4.32	4.35
M Money Market	0.56	0.57	0.57	0.70
2-year CD	0.99	0.99	1.04	1.42
5-year CD	1.78	1.79	2.00	2.32

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US  
Source: Bloomberg and BBVA Research

Graph 15  
Treasury Yield Curve, %



Source: Bloomberg

## Quote of the Week

Chairman Ben S. Bernanke  
Bernanke on Debt, Dissent and Paul Giamatti  
8 September 2011

*"He also sidestepped a question on his opinion of Paul Giamatti's portrayal of him in the film 'Too Big to Fail'. 'I didn't see the movie; I saw the original,' Bernanke said, drawing laughter from the crowd as he closed his appearance."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
13-Sep	Import Prices	AUG	0.10%	-0.80%	0.30%
13-Sep	Export Prices	AUG	0.00%	--	-0.40%
13-Sep	Monthly Treasury Budget	AUG	-\$125.0B	-\$130.0B	-\$129.4B
14-Sep	Producer Price Index (MoM)	AUG	0.00%	-0.10%	0.20%
14-Sep	PPI Ex Food & Energy (MoM)	AUG	0.20%	0.20%	0.40%
14-Sep	Advance Retail Sales	AUG	0.2%	0.2%	0.5%
14-Sep	Retail Sales Less Autos	AUG	0.3%	0.2%	0.5%
14-Sep	Business Inventories	JUL	0.4%	0.5%	0.3%
15-Sep	Consumer Price Index (MoM)	AUG	0.20%	0.20%	0.50%
15-Sep	CPI Ex Food & Energy (MoM)	AUG	0.20%	0.20%	0.20%
15-Sep	Empire State Manufacturing Survey	SEPT	-2.00	-3.50	-7.72
15-Sep	Initial Jobless Claims	9-Sep	408K	410K	414K
15-Sep	Continuing Claims	3-Sep	3710K	3710K	3717K
15-Sep	Industrial Production	AUG	0.10%	0.10%	0.90%
15-Sep	Capacity Utilization	AUG	77.50%	77.50%	77.50%
15-Sep	Philadelphia Fed Survey	SEPT	-10.00	-15.00	-30.70
16-Sep	Consumer Sentiment	SEPT	56.00	56.50	55.70

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